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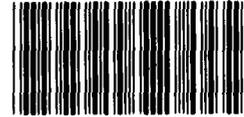
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FEDERAL PERSONNEL AND COMPENSATION DIVISION

SEPTEMBER 28, 1982

B-165959

The Honorable Geraldine A. Ferraro
Chairwoman, Subcommittee on Human Resources
Committee on Post Office and Civil Service
House of Representatives



119732

Dear Madam Chairwoman:

Subject: Programs to Help Displaced Federal Civilian
Employees Obtain Employment (GAO/FPCD-82-75)

As requested by you on December 8, 1981, we are providing the results of our evaluation of job placement programs available to Federal employees who are affected by reductions-in-force (RIFs). We provided you the preliminary results of our review on April 19, 1982.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to survey Federal employees affected by RIFs to get their views on placement assistance received and the effects of RIFs on their morale and productivity. We performed our review in accordance with our office's current "Standards for Audit of Governmental Organizations, Programs, Activities and Functions."

We used a questionnaire to survey a statistically valid sample of about 700 of 6,000 Federal employees from 14 departments and agencies who received "specific" RIF notices 1/ effective in fiscal year 1981. About 500 individuals responded. At the time they responded, a median of 7 months had elapsed since the effective dates of the notices.

The questionnaire covered several topics, including the effects of receiving a "general" RIF notice 2/ on employees' morale

1/A "specific" RIF notice informs employees that a RIF action is necessary and states specifically how they will be affected.

2/A "general" RIF notice informs employees that a RIF action may be necessary, but that the agency has not determined a specific action in their case.

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and productivity. There were also questions about assistance provided to employees by their Federal agencies and by Federal job placement programs, benefits employees received and/or are receiving, and employment status since receiving their RIF notices.

We interviewed Office of Personnel Management (OPM) officials to discuss their regulations pertaining to RIFs, their assistance to agencies on placement programs, and their efforts to insure compliance with laws and regulations. We also interviewed Department of Labor officials to discuss the effectiveness of the Federal Employee Re-employment Registry, a placement assistance program which they administered. In addition, we examined the sections of title 5, Code of Federal Regulations dealing with RIFs and placement assistance.

Enclosure I contains a detailed explanation of our questionnaire methodology.

SUMMARY OF QUESTIONNAIRE FINDINGS

About half of the respondents said they lost their Federal jobs and about one-third of these separated employees were still unemployed when they completed the questionnaire.

Respondents were more successful in finding employment on their own than in finding jobs through Federal placement programs. Only 16 percent of our sample got another job through one of the Federal placement programs before they were scheduled to lose their Federal jobs. Similarly, only about 20 percent of those who later found employment after losing their Federal jobs found new jobs through a Federal placement program.

OPM maintains that it and agency placement programs placed 7,576 employees during fiscal year 1981. However, because OPM reporting requirements do not define the term "placement," the number of actual placements attributed to these programs is not reliable. As a result, we believe that the reported numbers do not accurately reflect the effectiveness of these placement programs.

Our questionnaire results also show that RIFs were costly both in terms of lowered morale and productivity and in terms of expenditures for severance pay, unemployment benefits, and lump-sum leave. On the basis of our sample, we estimate that these latter expenditures totaled at least \$20 million as of the end of April 1982 for employees separated by RIF in fiscal year 1981. In addition, RIFs caused increased retirement costs.

PLACEMENT ASSISTANCE PROGRAMS

According to OPM statistics (excludes the Postal Service), over 4,400 employees lost their jobs, retired, or resigned in fiscal year 1981 because of RIFs. Another 4,700 employees were downgraded, reassigned, furloughed or had their duties changed. More separations and RIF-related actions are expected as the Administration acts on its goal to reduce the size of the Government by an additional 150,000 positions by fiscal year 1987. OPM estimates that, in fiscal year 1982, about 8,000 employees will lose their jobs as a result of RIFs.

During fiscal year 1981, five placement programs existed to assist individuals affected by a RIF.

1. Agency Positive Placement Programs--Federal agencies' programs to place employees in their own agencies or other Federal agencies as well as in the private sector. Counseling, job referrals, and training are also part of agency assistance.
2. Re-employment Priority List--helps people find jobs in the agency where they worked at the time of a RIF by giving them special consideration for job openings.
3. OPM's Displaced Employee Program--people in the program must be considered for jobs over other applicants when vacancies for which they qualify become available in the Federal Government.
4. OPM's Voluntary Interagency Placement Program--people in the program must be considered for Federal job openings for which they qualify, and the program helps employees find jobs in State and local governments and private business. 1/
5. Department of Labor's Federal Employee Re-employment Registry was intended to help employees find job openings in the private sector or other Federal agencies. It was discontinued on June 18, 1982, because, according to Labor officials, it was ineffective in placing individuals in private sector jobs and because the program duplicated and overlapped OPM placement activities.

OPM says agencies have the primary responsibility to assist displaced employees and thus considers the Re-employment Priority List and Agency Positive Placement Programs the most important programs.

1/This program was renamed the Interagency Placement Assistance Program on May 7, 1982.

LIMITED ASSISTANCE WAS
PROVIDED TO DISPLACED FEDERAL
EMPLOYEES IN FISCAL YEAR 1981

In August 1981, the President told agency heads that he was "determined to minimize as much as possible the adverse impact of these reductions on the individuals involved" and that "we must strive to retain the skills of our many talented civil servants in the Nation's work force." To do this, he said "each department and agency reducing its employment level must be aggressive in its attempts to find employment for individuals who are facing the loss of their jobs" and that each "has an obligation to support the interagency placement efforts being coordinated by the Office of Personnel Management."

OPM, the oversight agency for managing Government-wide personnel reductions, claims that the Administration has been successful in meeting these goals. More specifically, the Director of OPM, in an April 1982 letter to the Chairman of the Merit Systems Protection Board, stated that between January 20, 1981, and December 31, 1981:

"The number of full-time permanent employees with permanent appointments working in non-defense agencies [excluding the Postal Service]***dropped by 43,688***. Evidence that the Administration has succeeded in its goal of achieving most of the reduction through attrition can be seen in the fact that during all of 1981, only 7,041 full-time permanent employees were involuntarily separated. Others either found jobs elsewhere through OPM's placement programs, found jobs on their own and left voluntarily or retired."

However, our questionnaire results demonstrate the need for improved Federal placement efforts. For example, 24 percent of the employees in our sample who were facing imminent job loss said that they had never heard of any of the placement programs.

During December 1981 and January 1982, OPM visited 24 locations of 12 agencies Nation-wide to determine how well they were complying with RIF rules and regulations. According to a June 1982 OPM report, "agencies were doing a good job of complying with laws and regulations, but were often unprepared for the burden placed on their personnel offices or the anxiety experienced by their employees." The report also noted that "among the out-placement programs reviewed, few were well-developed."

Agency programs did not significantly contribute to finding jobs before employees were separated

Ideally, placement assistance should find jobs for employees before they are separated. However, our questionnaire results showed that Federal placement programs did not do this for most of our respondents. For our respondents,

- 43 percent were unemployed when they were separated,
- about 30 percent got a job on their own or by exercising their bump and retreat rights (see pp. 6 and 7 for a discussion of this),
- 14 percent got a job through agency positive placement efforts,
- 11 percent retained their jobs because the RIF was cancelled (some of these respondents were placed on furlough instead of being separated),
- 2 percent obtained a job through the Displaced Employee Program, Voluntary Interagency Placement Program, or Federal Employee Re-employment Registry.

Most of the 16 percent who got a job before separation, through one of the Federal placement programs, obtained their employment in the Federal Government. Only two respondents attributed obtaining a non-Federal job to one of the Federal placement programs.

Placement assistance not effective for separated employees

Fifty percent of our questionnaire respondents lost their Federal jobs. These individuals indicated that the various placement assistance programs were not effective in helping them find employment after separation. Forty-four percent of our respondents who were separated said they did not register in the Displaced Employee Program, Voluntary Interagency Placement Program, or Federal Employee Re-employment Registry programs. Only about 18 percent of our sample registered in all three programs. The major reason given for not registering was never having heard of the programs. Other reasons given were (1) preferring alternative means for finding a job and (2) having heard the programs were ineffective.

Only 10 percent of our respondents who were registered in the Displaced Employee Program, Voluntary Interagency Placement Program, or Federal Employee Re-employment Registry got a job offer from

one of these programs, and only 6 percent accepted a job. In addition, 8 percent of all separated respondents got a job offer through their agency's Re-employment Priority List, and only 2 percent indicated that they accepted a job. The major reason for declining a job was unacceptable grade level.

Only 16 percent of the respondents who were separated had found another job before their separation dates. Another 16 percent had decided to leave the job market, and 68 percent were unemployed and looking for a job when they were separated. About 30 percent were still unemployed when they completed our questionnaire, a median of approximately 7 months after their separation. Of the respondents who found employment between the time they were separated and when they completed our questionnaire, 80 percent said they obtained jobs on their own without Federal assistance, primarily through their professional contacts. The other 20 percent attributed their new job to either agency placement efforts or one of the Federal placement programs.

OPM NUMBERS ON PLACEMENT
ASSISTANCE NOT ACCURATE

According to the Director of OPM, Agency Positive Placement Programs, the Displaced Employee Program, and the Voluntary Interagency Placement Program, placed 7,576 employees in jobs during fiscal year 1981. In an April 1982 letter to the Chairman of the Merit Systems Protection Board, the OPM Director reported that agencies placed 5,236 of these employees, the Voluntary Interagency Placement Program placed nearly 2,000, and the Displaced Employee Program placed about 340 employees during 1981. However, we found that these numbers were misleading.

OPM officials told us that agencies and OPM area offices interpreted the term "placement" broadly and differently. Because OPM does not define the term, they said that individuals removed from the Displaced Employee Program and Voluntary Interagency Placement Program, regardless of the reasons, were counted as placements by some OPM offices. For example, even though some employees were removed because they found jobs on their own, some OPM offices included these as placements attributable to the programs. OPM officials also said that, in some cases, both agencies and OPM offices took credit for the same placements, which resulted in double counting.

OPM officials acknowledge that they did not verify placements reported by agencies and that the placements claimed could also include employees who retained Federal jobs through the bump and retreat process. The bump and retreat process, however, is separate from Agency Positive Placement Programs. The process is governed by OPM regulations, and agencies are required to follow it. More

specifically, OPM regulations provide three rounds of competition for conducting a RIF. After the agency has selected the positions to be abolished in a competitive level, the first-round competition occurs, and those employees within a competitive level compete only among themselves for the remaining positions within that competitive level. In second-round competition, known as "bumping," employees who did not retain their jobs during first-round competition compete for positions in other competitive levels. OPM regulations also provide for third-round competition called "retreating." In retreating, employees may have rights to available positions which are either identical to or substantially the same as positions from or through which they have been promoted.

OPM officials said they did not know how many of the "placements" were bump and retreat actions. However, in our opinion, these actions are not and should not have been reported as placements because they occurred as a result of agencies applying RIF rules and regulations and not as a result of Agency Positive Placement Programs.

Although OPM officials in charge of the placement programs acknowledge the numbers were misleading, they used them to report on and measure the success of the programs. Furthermore, the officials said no attempt has been made to refine their method of accounting for program placements in fiscal year 1982. As a result, we believe that OPM data on 1982 placements will also be unreliable.

RIFS ARE COSTLY

We have previously stated that RIFs, which are very disruptive and costly, should be avoided if at all possible. In a January 1982 report, ^{1/} we pointed out that the cost associated with RIFs significantly offset their savings. We have also pointed out that RIFs can be "penny-wise pound foolish" if corresponding reductions in workload are not made.

Our questionnaire responses confirmed that RIFs are costly. As of the end of April 1982, for the respondents who were separated,

--55 percent received unemployment benefits which totaled about \$300,000,

--60 percent received severance pay which totaled over \$650,000, and

--87 percent received nearly \$550,000 for unused leave.

^{1/}"Savings from 1981 and 1982 Personnel Ceiling Reductions" (FPCD-82-23, Jan. 15, 1982).

About 50 percent of our universe, or 3,000 Federal employees, were separated during fiscal year 1981. Projecting the above total costs of \$1.5 million to these employees shows total costs for unemployment benefits, severance pay, and lump-sum leave payments as of the end of April 1982 to be about \$20 million.

As we reported in January 1982, additional costs are incurred when employees retire early. Several factors affect these costs, including (1) the extra years early retirees spend on the retirement rolls, (2) the loss to the retirement fund of the employee and agency contributions that would otherwise be made, and (3) cost-of-living adjustments the early retirees receive, counterbalanced by increased annuities employees would earn if they worked longer. Also, as a result of early retirement, the services of experienced workers in whom the Government has invested substantial training and development are lost.

About 14 percent of our respondents who received specific RIF notices retired. Over half of them retired after being unsuccessful in finding another Federal job.

According to an OPM program official, about 950 employees retired early as a result of fiscal year 1981 RIFs. OPM has determined that each early retirement creates an additional liability of 130 percent of the employee's final salary and has estimated that the fiscal year 1981 early retirements will cost the civil service retirement system about \$34.8 million. Furthermore, we believe the volume of early retirements in fiscal year 1982 will probably equal or exceed the volume in fiscal year 1981.

A number of other costs are associated with RIFs, such as (1) preparing for and administering RIFs, (2) resolving employee appeals and grievances, (3) training employees who were assigned to new positions, and (4) moving reassigned employees to different geographic locations. Also, Federal revenues may be reduced when revenue producing activities are cut.

Our questionnaire results also show that the fiscal year 1981 RIFs adversely affected employee morale and productivity. About 65 percent of our respondents felt their morale was worse after they received their RIF notice, and about 39 percent felt that productivity declined.

It is too soon to determine whether or not RIFs resulting from budget and employment ceiling reductions will produce long-term savings. As we reported in January 1982, the savings will not result or will be reduced if (1) previously separated employees are replaced, (2) agencies compensate for the reductions by awarding contracts or using overtime to perform separated employees' functions, or (3) significant program problems occur as a result of the reductions.

MANDATORY HIRING OPTION
NOT EXERCISED BY OPM

In a May 5, 1981, letter to the Director of OPM, you expressed concerns over the effectiveness of OPM's Voluntary Interagency Placement Program because it did not require mandatory placement of displaced Federal employees in vacancies before hiring outside applicants. In a March 3, 1982, letter, we expressed similar concerns to the Director of OPM about the effectiveness of the various placement assistance programs. We stated that the restrictions placed on agencies in filling position vacancies were too narrow and greatly minimized the potential for placing employees. Specifically, while OPM requires agencies to consider displaced employees in the Displaced Employee Program and Voluntary Interagency Placement Program for position vacancies, it does not require them to fill the vacancies with qualified displaced employees. In the interest of retaining these employees' skills in the Government's work force, we stated that the large number of anticipated separations resulting from RIFs warranted the reinstatement of the special hiring restrictions imposed by OPM (then the Civil Service Commission) in 1977 and early 1978. These restrictions required agencies to fill vacant positions with qualified displaced employees.

The Director of OPM disagreed with the need to impose mandatory hiring restrictions because he felt the placement programs would be effective without the administrative problems inherent in establishing a mandatory hiring program. He also commented that such an approach would interfere with management prerogatives to fill vacant positions. He assured us that he had not ruled out the possibility of imposing hiring restrictions should the situation warrant such action. However, OPM has no criteria for deciding when more controls on filling vacant positions may be warranted.

While mandatory hiring restrictions may entail some administrative problems and restrict agency managers' flexibility to fill vacant positions, we continue to believe that these restrictions are needed to assure the best possible placement for separated employees.

According to OPM's publication "Federal Civilian Workforce Statistics," 83 percent of the more than 544,000 accessions in 1981 came from outside the Federal Government. These Federal civilian accessions were occurring at the same time that Federal employees were being separated in large numbers. To better understand the need for these outside hires, we are in the process of comparing characteristics, such as occupational series, grade level, and geographic location of Federal employees separated in

calendar year 1981 with those of the new hires. We will report to you separately on the results of this comparison.

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At your request, we have not obtained agency comments on this report. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that time, we will send copies to the Director, Office of Personnel Management; the heads of the agencies included in the review, and other congressional committees having jurisdiction over matters discussed in the report. We will make copies available to others upon request.

Sincerely yours,


Clifford I. Gould
Director

QUESTIONNAIRE METHODOLOGY

We used OPM's staffing status report of November 1981 to identify agencies that had issued specific RIF notices effective in fiscal year 1981. We then contacted these agencies' personnel offices and asked them to provide us the names of all employees who were issued notices. We received about 6,000 names from the agencies.

The questionnaire was sent to a random sample of the 6,000 individuals. Our sample was selected to provide projectable findings with a maximum sampling error of 5 percent at the 95 percent level of statistical confidence. A sample of 361 was needed from a universe of 6,000 to meet this error rate. We mailed our questionnaire to a total of 689 individuals to help ensure that a final sample size of at least 361 was obtained.

Up to three followup contacts were made to increase the response rate. First, another copy of the questionnaire was mailed. Second, a mailgram was sent encouraging nonrespondents to complete the questionnaire. As a final contact, a shortened version of the questionnaire was mailed. It consisted of a subset of questions from the full-length questionnaire.

Questionnaire statistics and response rate are shown below:

<u>Universe size</u>	<u>Number sampled</u>	<u>Undeliverable</u>	<u>Number responding</u>	<u>Response rate</u>
5947	689	39	506	78%

The "Number responding" column includes 471 respondents to the long version and 35 individuals who responded to the short version. The response rate is based on the number responding divided by the number sampled minus the undeliverables.

As stated previously, we selected an initial sample size so that our findings would have a maximum sampling error of +5 percentage points at the 95 percent level of confidence. The sampling error of our findings can be computed on the basis of the number of respondents and the observed percentage. Sampling errors were computed for all respondents who received specific RIF notices and for the subset of respondents who were separated from the Federal Government. The sampling errors at the 95-percent level are as follows:

Sampling Errors at 95-Percent
Confidence Level (note a)

<u>Observed percent</u>	<u>Respondents receiving specific notices</u>	<u>Separated respondents</u>
10 or 90	+2.8	+4.0
25 or 75	+4.0	+5.8
50	+4.6	+6.7

Sampling errors for other reported percentages can be interpolated. We can be 95 percent certain that our findings are within the percents specified in the table of what would have been obtained from a complete census of the universe. For example, if 10 percent of employees who answered our survey got a job through the Agency Positive Placement Program, then we can say that we are 95 percent sure that between 7.2 percent and 12.8 percent of all employees receiving specific RIF notices obtained a job through their agency. This assumes that our respondents represent the entire group from which they were selected.

The sampling errors reported above are for findings regarding all employees who received specific RIF notices effective in fiscal year 1981. Findings for subgroups of employees (such as only those who were separated) may be associated with different levels of precision and possibly larger sampling errors than those for all employees who received notices. These differences depend upon the size of the subgroup universe and the number of respondents in the subgroup. (See last column in table above.)

a/Sampling errors were computed based on the 449 respondents who received specific RIF notices and who answered the full version of the questionnaire and on the 212 separated employees who completed the full version.